

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Kochville	County Saginaw
Audit Date March 31, 2003	Opinion Date May 29, 2003	Date Accountant Report Submitted to State: January 5, 2004 (enclosed)	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

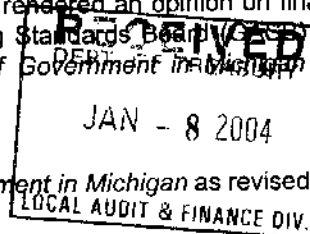
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik P.L.C.			
Street Address 5300 Gratiot	City Saginaw	State MI	ZIP 48603
Accountant Signature <i>Andrews Hooper &amp; Pavlik, CPA</i>			



Audited Financial Statements

Township of Kochville  
Saginaw County, Michigan

*For the year ended March 31, 2003*

# Audited Financial Statements

## Township of Kochville Saginaw County, Michigan

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# Audited Financial Statements

## Township of Kochville Saginaw County, Michigan

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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors

To the Township Board  
Township of Kochville  
Saginaw, Michigan

We have audited the accompanying general-purpose financial statements of the Township of Kochville, Saginaw County, Michigan, as of and for the year ended March 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Kochville, Saginaw County, Michigan, as of March 31, 2003, and the results of its operations and cash flows of its proprietary fund type and pension trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules of indebtedness listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
May 29, 2003, except for Note 14,  
as to which the date is September 5, 2003

Township of Kochville  
Saginaw County, Michigan  
Combined Balance Sheet - All Fund Types and Account Groups and Discretely Presented Component Unit  
March 31, 2003

	Governmental Funds		Proprietary Fund	Fiduciary Fund	General Long-Term Debt	Account Group	Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
	General	Special Revenue	Enterprise	Trust and Agency		General Fixed Assets			
<b>Assets</b>									
Cash and cash equivalents	\$459,748	\$103,172	\$1,910,631	\$ 5,751			\$ 2,479,302	\$ 84,627	\$ 2,563,929
Investments				72,499			72,499	754,040	826,539
Property taxes receivable	24,967	4,235					29,202		29,202
Accounts receivable	198	18,371	53,398				71,967		71,967
Due from other funds	5,751						5,751		5,751
Advance			60,340				60,340		60,340
Inventory			78,187				78,187		78,187
Prepaid asset	404,690						404,690		404,690
Special assessments receivable			1,523,584				1,523,584		1,523,584
Advance to other funds			304,690				304,690		304,690
Amount to be provided					\$304,690		304,690		304,690
Property and equipment, net of accumulated depreciation			5,604,072				6,739,887		6,739,887
<b>Total assets</b>	<b>\$895,354</b>	<b>\$125,778</b>	<b>\$9,534,902</b>	<b>\$78,250</b>	<b>\$304,690</b>	<b>\$1,135,815</b>	<b>\$12,074,789</b>	<b>\$838,667</b>	<b>\$12,913,456</b>
<b>Liabilities and fund equity</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 39,020	\$ 9,487	\$ 313,944				\$ 362,451	\$ 12,080	\$ 374,531
Accrued interest payable			8,318				8,318		8,318
Accrued salaries	11,579	11,316	3,764				26,659		26,659
Accrued payroll taxes	2,674						2,674		2,674
Customer deposits	73,588						73,588		73,588
Due to other funds				\$ 5,751			5,751		5,751
Contracts payable			396,891				396,891		396,891
Current portion of long-term debt			23,826				23,826		23,826
Advance from other funds					304,690		304,690		304,690
<b>Total liabilities</b>	<b>126,861</b>	<b>20,803</b>	<b>746,743</b>	<b>5,751</b>	<b>304,690</b>		<b>1,204,848</b>	<b>12,080</b>	<b>1,216,928</b>
<b>Fund equity:</b>									
Investments in General Fixed Assets							1,135,815		1,135,815
Contributed capital			5,603,975				5,603,975		5,603,975
Retained earnings:			3,184,184				3,184,184		3,184,184
Unreserved:									
<b>Fund balances:</b>									
Reserved for property tax administration	2,569						2,569		2,569
Reserved for rubbish collection	29,348						29,348		29,348
Reserved for prepaid asset	304,690						304,690		304,690
Reserved for employees retirement system				72,499			72,499		72,499
Reserved for building code enforcement		37,323					37,323		37,323
Unreserved, undesignated	431,886	67,652	8,788,159	72,499			499,538	826,587	1,326,125
<b>Total fund equity</b>	<b>768,493</b>	<b>104,975</b>	<b>8,788,159</b>	<b>72,499</b>	<b>\$304,690</b>	<b>\$1,135,815</b>	<b>10,869,941</b>	<b>826,587</b>	<b>11,696,528</b>
<b>Total liabilities and fund equity</b>	<b>\$895,354</b>	<b>\$125,778</b>	<b>\$9,534,902</b>	<b>\$78,250</b>	<b>\$304,690</b>	<b>\$1,135,815</b>	<b>\$12,074,789</b>	<b>\$838,667</b>	<b>\$12,913,456</b>

See accompanying notes.

Township of Kochville  
Saginaw County, Michigan

Combined Statement of Revenues, Expenditures and Changes in Fund Balance  
All Governmental Fund Types and Discretely Presented Component Unit

Year ended March 31, 2003

	Governmental Funds		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
	General	Special Revenue			
<b>Revenues</b>					
Taxes	\$ 196,534	\$ 114,687	\$ 311,221		\$ 311,221
Licenses and permits	4,635	86,439	91,074		91,074
State shared revenues	250,268		250,268		250,268
Charges for services	91,241	5,385	96,626		96,626
Interest	20,095	1,393	21,488	\$ 24,388	45,876
Other	10,747	33,137	43,884	39,604	83,488
Total revenues	573,520	241,041	814,561	63,992	878,553
<b>Expenditures</b>					
Current:					
Legislative	11,799		11,799		11,799
General government	248,858		248,858		248,858
Public safety	89,145	154,243	243,388		243,388
Public works	1,204,150		1,204,150		1,204,150
Recreational and cultural	12,315		12,315		12,315
Capital outlay	4,582	31,451	36,033	149,885	185,918
Other				10,091	10,091
Total expenditures	1,570,849	185,694	1,756,543	159,976	1,916,519
Excess of revenues over (under) expenditures	(997,329)	55,347	(941,982)	(95,984)	(1,037,966)
<b>Other financing sources (uses)</b>					
Advance from water fund	304,690		304,690		304,690
Transfers from other funds	89,000	163,628	252,628		252,628
Transfers to other funds	(138,628)	(114,000)	(252,628)		(252,628)
Total other financing sources (uses)	255,062	49,628	304,690		304,690
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(742,267)	104,975	(637,292)	(95,984)	(733,276)
Fund balance at beginning of year	1,510,760		1,510,760	922,571	2,433,331
Fund balance at end of year	\$ 768,493	\$ 104,975	\$ 873,468	\$826,587	\$ 1,700,055

See accompanying notes.

Township of Kochville  
Saginaw County, Michigan

Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General and Special Revenue Fund Types

Year ended March 31, 2003

	General Fund			Special Revenue		
	Budget (as Amended)	Actual	Over (Under) Budget	Budget (as Amended)	Actual	Over (Under) Budget
<b>Revenues</b>						
Taxes	\$ 191,000	\$ 196,534	\$ 5,534	\$100,000	\$114,687	\$ 14,687
Licenses and permits	1,000	4,635	3,635	35,000	86,439	51,439
State shared revenues	283,000	250,268	(32,732)			
Charges for services	87,000	91,241	4,241	18,000	5,385	(12,615)
Interest	65,000	20,095	(44,905)	4,000	1,393	(2,607)
Other	2,400	10,747	8,347	12,000	33,137	21,137
<b>Total revenues</b>	<b>629,400</b>	<b>573,520</b>	<b>(55,880)</b>	<b>169,000</b>	<b>241,041</b>	<b>72,041</b>
<b>Expenditures</b>						
<b>Current:</b>						
Legislative	10,923	11,799	876			
General government	254,080	248,858	(5,222)			
Public safety	113,168	89,145	(24,023)	144,600	154,243	9,643
Public works	1,354,500	1,204,150	(150,350)			
Recreational and cultural	40,730	12,315	(28,415)			
Capital outlay	11,000	4,582	(6,418)	34,000	31,451	(2,549)
<b>Total expenditures</b>	<b>1,784,401</b>	<b>1,570,849</b>	<b>(213,552)</b>	<b>178,600</b>	<b>185,694</b>	<b>7,094</b>
Excess of revenues over (under) expenditures	(1,155,001)	(997,329)	157,672	(9,600)	55,347	64,947
<b>Other financing sources (uses)</b>						
Advance from Water Fund		304,690	304,690			
Transfers from other funds		89,000	89,000	181,000	163,628	(17,372)
Transfers to other funds	(163,628)	(138,628)	25,000		(114,000)	(114,000)
<b>Total other financing sources (uses)</b>	<b>(163,628)</b>	<b>255,062</b>	<b>418,690</b>	<b>181,000</b>	<b>49,628</b>	<b>(131,372)</b>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,318,629)	(742,267)	576,362	171,400	104,975	(66,425)
Fund balances at beginning of year	1,510,760	1,510,760				
<b>Fund balances at end of year</b>	<b>\$ 192,131</b>	<b>\$ 768,493</b>	<b>\$576,362</b>	<b>\$171,400</b>	<b>\$104,975</b>	<b>\$ (66,425)</b>

See accompanying notes.



Township of Kochville  
Saginaw County, Michigan

Combined Statement of Revenues, Expenses and Changes in Retained Earnings  
Proprietary Fund Type and Pension Trust Fund  
Year ended March 31, 2003

	Proprietary Funds	Fiduciary Fund	Total (Memorandum Only)
	Enterprise	Pension Trust	
<b>Operating revenues</b>			
Charges for services	\$ 502,134		\$ 502,134
Employer contributions		\$19,038	19,038
Other revenues/charges		(20,002)	(20,002)
Total operating revenues	<u>502,134</u>	<u>(964)</u>	<u>501,170</u>
<b>Operating expenses</b>			
Salaries	83,003		83,003
Employee benefits	19,356		19,356
Supplies	67,851		67,851
Contracted services	295		295
Legal and accounting	28,180		28,180
Engineering services	3,945		3,945
Communications alarms	2,829		2,829
Meetings and conventions	1,974		1,974
Transportation	2,381		2,381
Insurance	5,940		5,940
Pagers/Telephones	1,817		1,817
Public utilities	10,127		10,127
Water purchases and sewer treatment charges	370,142		370,142
Repairs and maintenance	92,065		92,065
Hookup costs	20,263		20,263
Depreciation	173,970		173,970
Distributions		64,065	64,065
Miscellaneous	2,444	965	3,409
Total operating expenses	<u>886,582</u>	<u>65,030</u>	<u>951,612</u>
Operating loss	<u>(384,448)</u>	<u>(65,994)</u>	<u>(450,442)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	110,518		110,518
Interest and fiscal charges	(20,584)		(20,584)
Total nonoperating revenues	<u>89,934</u>		<u>89,934</u>
Income before capital contributions	(294,514)	(65,994)	(360,508)
Capital contributions	810,737		810,737
Increase in retained earnings	516,223	(65,994)	450,229
Retained earnings at beginning of year	2,667,961	138,493	2,806,454
Retained earnings at end of year	<u>\$ 3,184,184</u>	<u>\$ 72,499</u>	<u>\$3,256,683</u>

See accompanying notes.

Township of Kochville  
Saginaw County, Michigan  
Combined Statement of Cash Flows  
Proprietary Fund Type and Pension Trust Fund  
Year ended March 31, 2003

	Proprietary Funds	Fiduciary Fund	Total
	Enterprise	Pension Trust	(Memorandum Only)
<b>Cash flows from operating activities</b>			
Operating loss	\$ (384,448)	\$(65,994)	\$ (450,442)
Noncash items included in operating income:			
Depreciation	173,970		173,970
Decrease (increase) in:			
Accounts receivable	(2,161)		(2,161)
Inventory	(65,365)		(65,365)
Advance	32,783		32,783
Increase (decrease) in:			
Accounts payable	262,404		262,404
Accrued salaries	988		988
Accrued interest payable	(757)		(757)
Accrued payroll taxes	(1,929)		(1,929)
Net cash used in operating activities	15,485	(65,994)	(50,509)
<b>Cash flows from capital and related financing activities</b>			
Principal payments on long-term debt	(34,591)		(34,591)
Collections on special assessments	200,554		200,554
Interest and finance charges	(20,584)		(20,584)
Contributed capital	810,737		810,737
Capital expenditures	(631,737)		(631,737)
Net cash provided by capital and related financing activities	324,379		324,379
<b>Cash flows from noncapital and related     financing activities</b>			
Advance to other funds	(304,690)		(304,690)
Net cash used in noncapital and related financing activities	(304,690)		(304,690)
<b>Cash flows from investing activities</b>			
Maturities and reinvestment	800,000	65,994	865,994
Interest income	110,518		110,518
Net cash provided by investing activities	910,518	65,994	976,512
Net increase in cash and cash equivalents	945,692		945,692
Cash and cash equivalents at beginning of year	964,939		964,939
Cash and cash equivalents at end of year	<u>\$1,910,631</u>		<u>\$1,910,631</u>

The cash and cash equivalents of \$5,751 shown on the combined balance sheet relates to the Current Tax Collection Fund.

See accompanying notes.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements

March 31, 2003

**1. Description of the Township**

The Township of Kochville (the Township) is an incorporated municipality located in Saginaw County, Michigan. The Township operates under an elected five member Board of Trustees and provides various services to approximately 3,200 residents.

**2. Summary of Significant Accounting Policies**

The financial statements of the Township are prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**Financial Reporting Entity**

As required by accounting principles generally accepted in the United States of America the financial statements of the reporting entity include those of the Township (the primary government) and the Downtown Development Authority (the component unit). The Downtown Development Authority (DDA) is included in the Township's reporting entity because of the significance of its operational and financial relationship with the Township.

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the DDA have been included in the financial reporting entity as a discretely presented component unit. The DDA is reported in a separate column to emphasize that it is legally separate from the Township. The members of the DDA are appointed by the Township Board and the DDA is fiscally dependent on the Township as the DDA is prohibited from levying taxes and issuing bonded debt without the approval of the Township Board.

**Basis of Presentation**

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The Township has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Governmental Fund Types**

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

*General Fund*

This fund is established to account for resources devoted to financing the general services that the Township performs for its residents. General tax revenues and other sources of revenue used to finance the fundamental operations of the Township are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

*Special Revenue Fund Types*

These funds are established to account for the proceeds of specific revenue sources other than special assessments or major capital projects that are legally restricted to expenditures for specified purposes. These funds, consisting of the Building Code Fund and the Fire Fund, were added in the current fiscal period.

*Building Code Fund*

The Township has established a special revenue fund pursuant to Michigan Public Act 245 of 1999, which requires that local governments establish "reasonable fees" which "bear a reasonable relationship" to the cost of operating an enforcement agency for plumbing, electrical, mechanical, and building codes. The Township's enforcing agency is the Building Code Department. Public Act 245 further requires that the fees generated under the enforcement activity can only be used for the operation of the enforcement program and that a special revenue fund be established to account for the enforcement activity.

*Fire Fund*

During the fiscal year ended March 31, 2003, the Township established a Fire Fund to account for the portion of its tax revenue received as designated for use related to its Fire Department operations.

*Capital Projects Funds*

These funds are established to account for major capital expenditures not financed by proprietary funds. Currently, the Township does not have any Capital Project Funds.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Governmental Fund Types (continued)**

**Proprietary Fund Type**

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds.

Enterprise funds, consisting of the Sanitary Sewer Fund and the Water Fund are established to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. It is the Township's policy not to amortize contributed capital.

**Fiduciary Fund Types**

Trust and Agency Funds – These funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. The funds included in this category are as follows:

Pension Trust Fund - This fund was established to provide pension benefits for Township employees. The principal revenue source for this fund is employer and employee contributions and investment income.

Current Tax Collection Fund - This fund is used to account for the collection of the current year tax levy and subsequent disbursement to the appropriate governmental units and funds.

**Account Groups**

*General Fixed Assets Account Group*

This account group presents the fixed assets of the Township, other than those accounted for in the proprietary funds.

*General Long-Term Debt Account Group*

This account group presents the long-term debt related to long-term obligations of the Township's funds, other than obligations accounted for in the proprietary funds. As described further in Note 13, the General Fund received an advance from the Water Fund for the acquisition of a fire truck. The obligation for the advance is recorded in this account group.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Basis of Accounting**

Governmental fund types utilize the modified accrual basis of accounting. Under this method, revenue and other sources are recognized in the accounting period in which they become susceptible to accrual - that is when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the related liability is incurred. Modifications in such method from the accrual basis are as follows:

1. Property tax revenues are recognized when they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property taxes receivable which are not available to the Township until a subsequent year are classified as deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity appears certain.
2. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
3. Payments for inventorial types of supplies are recorded as expenditures at the time of purchase.
4. With minor exceptions, compensated absences do not vest or accumulate and are recorded as expenditures when they are paid.

All proprietary funds and the Pension Trust Fund are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The Current Tax Collection (Agency) Fund is custodial in nature (assets equal liabilities) and does not recognize results of operations.

**Budgets and Budgetary Accounting**

Comparisons to budget are presented for the General and Special Revenue Funds as required by accounting principles generally accepted in the United States of America. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Township Board approves proposed operating budgets for the fiscal year commencing the following April 1. The operating budgets include proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Budgets and Budgetary Accounting (continued)**

2. Prior to March 31, the budgets are legally enacted through passage of a resolution.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP)
5. Adoption and amendments of all budgets used by the Township are governed by Public Act 621.
6. Budgeted amounts are as originally adopted or as amended by the Township Board. Budgets are adopted at the activity level.
7. Budgets lapse at year end.

**Cash and Cash Equivalents**

The Township considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Investments**

Investments are stated at fair market value.

**Receivables**

Receivables have been recognized for all significant amounts due the Township in accordance with the basis of accounting used for the particular fund. An allowance for uncollectible accounts has not been provided because collection of the Township's receivables is not considered doubtful and any uncollectible amounts would be immaterial.

**Inventory**

Inventory is stated at cost using the first-in, first-out (FIFO) method of valuation.

**Fixed Assets**

Fixed assets of all funds and component units are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Governmental funds' fixed assets are recorded in the general fixed assets account group and are not depreciated.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Fixed Assets (continued)**

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain "infrastructure" general fixed assets consisting of certain improvements other than buildings, including roads, curbs, and gutters, streets and sidewalks, drainage systems, and lighting systems, are not recorded. Proprietary funds fixed assets are recorded in the respective fund and depreciated using the straight-line method. Estimated useful lives of the assets range from 5 to 50 years.

**Property Taxes**

Property taxes are attached as an enforceable lien on property as of December 1 and are due without penalty on or before February 15. These tax bills include the Township's own property taxes and taxes billed on behalf of the State of Michigan, Saginaw County and the school districts within the Township boundaries. Real property taxes not collected as of March 1 are turned over to Saginaw County for collection, which advances the Township 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer. Property taxes, as levied on December 1 of each year, are recognized as revenue in that fiscal year.

The Township acts as a collection agent for the State of Michigan, Saginaw County, Saginaw City School District, Freeland School District and Bay City School District property taxes.

Taxes collected on behalf of the State of Michigan, Saginaw County and the school districts are remitted to them immediately following collection and are accounted for in the Current Tax Collection Fund.

**Total Columns on Combined Statements - Overview**

Total columns on the Combined Statements - Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. Cash and Cash Equivalents and Investments**

The Township's cash and cash equivalents at March 31, 2003 are composed of the following:

	Primary Government	Component Unit
Checking, savings and certificates of deposit	\$2,479,102	\$84,627
Petty cash	200	-
	<u>\$2,479,302</u>	<u>\$84,627</u>



Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**3. Cash and Cash Equivalents and Investments (continued)**

The above deposits, for GASB Statement No. 3 purposes, were reflected in the accounts of various financial institutions at \$2,526,919. Of that amount, \$184,627 was classified as insured by federal depository insurance, and \$2,342,292 was classified as uninsured and uncollateralized.

The Township believes that due to the dollar amounts of deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution, assesses the level of risk of each institution; and only those institutions with an acceptable estimated risk level are used as depositories.

The Township's investments at March 31, 2003 are composed of the following:

	Carrying Value	Market Value
Pension Trust - Allocated Retirement Account	\$ 72,499	\$ 72,499
Component unit:		
Downtown Development Authority-Mutual Funds	754,040	754,040
	<u>\$826,539</u>	<u>\$826,539</u>

The investments in the Pension Trust consist primarily of mutual funds which are reported at fair market value based on quoted market prices. In accordance with GASB Statement No. 3, investments in mutual funds are not categorized for custodial risk purposes.

Statutory Authority

Act 214, PA 1982, authorizes the Township to deposit and invest in:

- a) Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, or a credit union which is insured by the National Credit Union Administration, that are eligible to be a depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146).
- c) Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50 percent of any fund may be invested in commercial paper at any time.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**3. Cash and Cash Equivalents and Investments (continued)**

- d) United States Government or Federal agency obligation repurchase agreements.
- e) Bankers' acceptances of United States banks.
- f) Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**4. Interfund Receivables and Payables**

Interfund receivables and payables at March 31, 2003 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 5,751	Current Tax Collection	\$5,751

**5. Property and Equipment**

*General Fixed Asset Account Group*

Activity for general fixed assets capitalized by the Township is summarized as follows:

	Balance March 31, 2002	Additions	Deletions	Balance March 31, 2003
Land	\$ 110,000			\$ 110,000
Buildings:				
Township hall	89,030			89,030
Fire department	453,735			453,735
Equipment:				
Township hall	74,574	\$ 4,582		79,156
Fire department	104,574	31,451		136,025
Vehicles:				
Fire department	267,869			267,869
	<u>\$1,099,782</u>	<u>\$36,033</u>		<u>\$1,135,815</u>

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**5. Property and Equipment (continued)**

*Enterprise Funds*

A summary of property and equipment of the Township's enterprise funds as of March 31, 2003 is as follows:

	Sanitary Sewer	Water	Total	Est. Useful Life (years)
Construction in progress	\$ 158,996	\$ 282,660	\$ 441,656	
Sewer systems	3,630,787		3,630,787	30-50
Pumping station	94,075		94,075	50
Water systems		3,632,268	3,632,268	1-50
Equipment	39,717	45,340	85,057	5-10
	3,923,575	3,960,268	7,883,843	
Less accumulated depreciation	1,271,209	1,008,562	2,279,771	
	<u>\$2,652,366</u>	<u>\$2,951,706</u>	<u>\$5,604,072</u>	

**6. Long-Term Debt**

The following is a summary of the Township's long-term debt, all of which is recorded in the Enterprise Funds:

	Balance 4/01/02	Additions	Reductions	Balance 3/31/03
Contract payable – Northwest Utilities Authority, 5.5% - 8.5% interest, due May 1, 2010	<u>\$452,025</u>	<u>–</u>	<u>\$31,308</u>	<u>\$420,717</u>

*Debt Service Requirements*

The annual principal and interest requirements through maturity for all debts outstanding as of March 31, 2003 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2004	\$ 23,826	\$ 19,308	\$ 43,134
2005	24,453	17,980	42,433
2006	25,707	16,601	42,308
2007	26,334	15,170	41,504
2008	27,588	13,811	41,399
Thereafter	292,809	61,270	354,979
	<u>\$420,717</u>	<u>\$145,040</u>	<u>\$3,935,467</u>

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**7. Risk Management**

The Township is exposed to various risk of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters.

The Township carries commercial insurance for risks to cover these losses. The Township also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**8. Pension Plan**

The Township has a defined contribution money purchase pension plan (the Plan) covering all employees who are at least 18 years of age. New employees are enrolled as Plan participants on April 1, the first day of each Plan year. The Plan is administered by the Township Office Manager and its activities are accounted for in the Pension Trust Fund of the Township's general-purpose financial statements.

Required annual contributions to the Plan are based on each employee's annual compensation. Currently, the Township contributes 100% of the total required annual contribution. Employees may elect to make voluntary contributions to the Plan through payroll withholding. Total annual contributions are subject to the Internal Revenue Code limitations. The Township's contributions are fully vested for each employee upon the earlier of the completion of twenty months of service, reaching 65 years of age, permanent disability, or death.

The Township's payroll covered under the Plan for the year ended March 31, 2003 was \$190,382. Total Township payroll for the year ended March 31, 2003 was \$295,383. The Township's required annual contribution to the Plan was \$19,038.

**9. Reserved Fund Equity**

Fund Balance Reserved for property tax administration under Public Act 503, 1982, restricts the use of the 1% Property Tax Administrative Fee (PTAF) specifically to the cost of administering the ad valorem tax. The reserved fund balance in the general fund consists of the PTAF not used during the current year and is reserved for future property tax administration costs as follows:

Net PTAF revenue	\$58,276
Eligible costs:	
Treasurer's office	14,560
Office manager	11,912
Assessor's office	21,914
Board of review	1,706
	<u>8,184</u>
Fund balance (deficit), reserved at beginning of year	(5,615)
Fund balance, reserved at end of year	<u>\$ 2,569</u>

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**9. Reserved Fund Equity (continued)**

*Fund Balance Reserved For Rubbish Collection*

This reserve was created in the General Fund to restrict the use of rubbish collection fees charged to Township's residents for payment of rubbish collection contracted service expenditures.

Rubbish collection revenues	\$77,868
Rubbish collection expenditures	86,450
Excess of expenditures over revenues	<u>(8,582)</u>
Fund balance, reserved at beginning of year	37,930
Fund balance, reserved at end of year	<u>\$29,348</u>

*Fund Balance Reserved for Prepaid Assets*

As described in more detail in Note 13, this reserve was created in the General Fund to restrict the use of resources associated with the purchase of a fire truck.

*Fund Balance Reserved for Employees Retirement System*

This reserve was created to restrict the use of all resources contributed to or earned by the Pension Trust Fund, as required by State statute.

**10. Expenditures in Excess of Appropriations**

For the year ended March 31, 2002, the Building Fund had expenditures of \$50,282 while the final amended budget was \$40,000. This resulted in an excess of expenditures over appropriations of \$10,282, which is not in compliance with Public Act 621. However, actual revenues for the fund did exceed expenditures for the year.

**11. Contributed Capital**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions received after the Township's fiscal year ended March 31, 2001 are no longer reported as additions to contributed capital, but are reported as nonoperating revenue in the statement of revenues, expenses, and changes in retained earnings. For the Township, this change affects the recording of capital contributions for the Sewer Fund and the Water Fund.

GASB Statement No. 33 does not allow for the restating of contributed capital arising from capital grant contributions recognized prior to 2001. The contributed capital will be restated as part of the implementation of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which is planned for implementation for the year ending March 31, 2005.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**12. Segment Information**

The following represents additional segment information of the Enterprise Funds not disclosed in the general-purpose financial statements as of and for the year ended March 31, 2003:

	Sanitary Sewer Fund	Water Fund
Total assets	\$3,984,655	\$5,550,247
Total liabilities	505,778	240,965
Operating revenues	214,389	287,745
Nonoperating revenues	19,539	70,395
Current capital contributions – net	315,612	495,125
Depreciation expense	88,406	85,564
Net property and equipment	2,652,366	2,951,706
Property additions	158,758	472,979
Net working capital	803,165	1,116,894
Long-term debt, net of current maturities	396,891	–
Total fund equity	3,478,877	5,309,282
Net increase in retained earnings	257,030	259,193

**13. Other Matters**

In November 2002, the Township entered into an agreement to purchase a fire truck. In order to secure a discount on the purchase price of the fire truck, the Township agreed to pay for the vehicle in full prior to December 31, 2002. As of March 31, 2003, the Township has recorded a prepaid asset in the amount of \$404,690. The fire truck was delivered to the Township in June 2003. A portion of the funding was obtained through an advance from the Water Fund to the General Fund in the amount of \$304,690.

Since the General Fund's repayment of the advance will not be repaid with funds that are considered available as defined under accounting principles generally accepted in the United States of America, the liability is recorded in the General Long-Term Debt Account Group.

Township of Kochville  
Saginaw County, Michigan

Notes to Financial Statements (continued)

**14. Subsequent Event**

The Township is responsible for a share of the costs of maintaining certain roads within the Township. These roads, which include Hospital Road, Kochville Road, and Pierce Road, are considered part of the infrastructure of the Saginaw County Road Commission (SCRC). The road maintenance is performed by the SCRC who then invoices the Township for the Township's share of the costs. For the fiscal year ended March 31, 2003, the Township had paid slightly more than \$1M for these costs and the SCRC had confirmed that as of March 31, 2003, no amounts were owed by the Township other than approximately \$3,200. Subsequent to March 31, 2003, the SCRC submitted to the Township an additional invoice for approximately \$235,000 that the SCRC represented as additional costs for which the Township had not been previously invoiced. The SCRC had previously represented that no additional costs were owed. The Township has informed the SCRC that it disputes the amount of the subsequent invoice. The SCRC is taking the position that the Township owes the SCRC for the additional invoice based on actual costs incurred. It is the position of the Township that the invoice represents an amount that exceeds the SCRC's revised estimate of the costs of the applicable road maintenance and includes costs that may not represent costs that are allocable to the Township. If resolution of the matter results in an additional liability to the Township as of March 31, 2003, the liability could create a deficit in the fund balance of the Township's general fund. Since the matter remains unresolved, an estimate of a potential liability, if any, is not known. Therefore, no amount for a potential liability has been recorded in the financial statements.

Township of Kochville  
Saginaw County, Michigan  
General Fund  
Statement of Expenditures - Budget and Actual  
Year ended March 31, 2003

	Budget (As Amended)	Actual	Over (Under) Budget
Legislative:			
Township board	\$ 10,923	\$ 11,799	\$ 876
General government:			
Supervisor	24,830	25,036	206
Elections	6,077	5,296	(781)
Legal and accounting	77,500	65,343	(12,157)
Assessor	20,400	21,914	1,514
Clerk	19,647	20,739	1,092
Board of review	1,992	1,706	(286)
Treasurer	25,912	27,008	1,096
Building and grounds	9,000	8,458	(542)
Township operating	<u>68,722</u>	<u>73,358</u>	<u>4,636</u>
	254,080	248,858	(5,222)
Public safety:			
Liquor law enforcement	5,000		(5,000)
Substation	1,000	588	(412)
Planning and zoning	104,515	87,493	(17,022)
Board of appeals	<u>2,653</u>	<u>1,064</u>	<u>(1,589)</u>
	113,168	89,145	(24,023)
Public works:			
Highways and streets	1,260,500	1,109,251	(151,249)
Street lighting	9,000	8,449	(551)
Rubbish collection	<u>85,000</u>	<u>86,450</u>	<u>1,450</u>
	1,354,500	1,204,150	(150,350)
Recreation and cultural:			
Parks and recreation	40,730	12,315	(28,415)
Capital outlay	<u>11,000</u>	<u>4,582</u>	<u>(6,418)</u>
Total expenditures	<u>\$1,784,401</u>	<u>\$1,570,849</u>	<u>\$(213,552)</u>



Township of Kochville  
Saginaw County, Michigan

Special Revenue Funds  
Combining Balance Sheet

March 31, 2003

	Building Fund	Fire Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$40,793	\$62,379	\$103,172
Property taxes receivable		4,235	4,235
Accounts receivable		18,371	18,371
Total assets	<u>\$40,793</u>	<u>\$84,985</u>	<u>\$125,778</u>
<b>Liabilities and fund balance</b>			
Liabilities:			
Accounts payable	\$ 2,032	\$ 7,455	\$ 9,487
Accrued salaries	1,438	9,878	11,316
Total liabilities	<u>3,470</u>	<u>17,333</u>	<u>20,803</u>
Fund equity:			
Reserved for building code enforcement	37,323		37,323
Unreserved and undesignated		67,652	67,652
Total fund balance	<u>37,323</u>	<u>67,652</u>	<u>104,975</u>
Total liabilities and fund balance	<u>\$40,793</u>	<u>\$84,985</u>	<u>\$125,778</u>

Township of Kochville  
Saginaw County, Michigan

Special Revenue Funds  
Combining Statement of Revenues, Expenses and Changes in Fund Balances

Year ended March 31, 2003

	Building Fund	Fire Fund	Total
<b>Revenues</b>			
Property taxes		\$114,687	\$114,687
Licenses and permits	\$86,439		86,439
Charges for services		5,385	5,385
Interest	395	998	1,393
Other revenue	770	32,367	33,137
Total revenues	87,604	153,437	241,041
<b>Expenditures</b>			
Salaries	35,055	41,303	76,358
Employee benefits	6,182	4,377	10,559
Supplies	612	6,321	6,933
Contracted services	2,646		2,646
Legal and accounting	1,460	3,785	5,245
Fire prevention		173	173
Meetings and conventions	2,255	5,842	8,097
Transportation	898	796	1,694
Insurance		7,391	7,391
Pagers and telephones	636	6,060	6,696
Printing and publications		155	155
Public utilities		9,406	9,406
Repairs and maintenance		9,656	9,656
Miscellaneous	538	4,668	5,206
Training		4,028	4,028
Capital outlay		31,451	31,451
Total expenditures	50,282	135,412	185,694
Excess of revenues over expenditures	37,322	18,025	55,347
<b>Other financing sources (uses)</b>			
Transfers from other funds	25,000	138,628	163,628
Transfers to other funds	(25,000)	(89,000)	(114,000)
Total other financing sources		49,628	49,628
Excess of revenues and other financing sources over expenditures and other financing uses	37,323	67,652	104,975
Fund balance at beginning of year			
Fund balance at end of year	\$37,323	\$ 67,652	\$104,975

Township of Kochville  
Saginaw County, Michigan

Enterprise Funds  
Combining Balance Sheet

March 31, 2003

	<u>Sanitary Sewer</u>	<u>Water</u>	<u>Total</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 770,170	\$ 1,140,461	\$ 1,910,631
Accounts receivable	25,279	28,119	53,398
Special assessments:			
Current	44,961	101,214	146,175
Delinquent	11,302	9,878	21,180
Advance	60,340		60,340
Inventory		78,187	78,187
Total current assets	<u>912,052</u>	<u>1,357,859</u>	<u>2,269,911</u>
Advance to other funds		304,690	304,690
Special assessments:			
Deferred	420,237	935,992	1,356,229
Property and equipment:			
Construction in progress	158,996	282,660	441,656
Plant and equipment	3,764,579	3,677,608	7,442,187
Less: accumulated depreciation	<u>(1,271,209)</u>	<u>(1,008,562)</u>	<u>(2,279,771)</u>
Net property and equipment	<u>2,652,366</u>	<u>2,951,706</u>	<u>5,604,072</u>
Total assets	<u><u>\$ 3,984,655</u></u>	<u><u>\$ 5,550,247</u></u>	<u><u>\$ 9,534,902</u></u>

Township of Kochville  
Saginaw County, Michigan  
Enterprise Funds  
Combining Balance Sheet (continued)  
March 31, 2003

	Sanitary Sewer	Water	Total
<b>Liabilities and fund equity</b>			
Current liabilities:			
Accounts payable	\$ 75,802	\$ 238,142	\$ 313,944
Accrued interest payable	8,318		8,318
Accrued salaries	941	2,823	3,764
Current portion of long-term debt	23,826		23,826
Total current liabilities	108,887	240,965	349,852
Long-term debt:			
Contracts payable	420,717		420,717
Less: current portion	(23,826)		(23,826)
Total long-term debt	396,891		396,891
Fund equity:			
Contributed capital	2,737,689	2,866,286	5,603,975
Retained earnings	741,188	2,442,996	3,184,184
Total fund equity	3,478,877	5,309,282	8,788,159
Total liabilities and fund equity	\$3,984,655	\$5,550,247	\$9,534,902

Township of Kochville  
Saginaw County, Michigan

Enterprise Funds

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended March 31, 2003

	Sanitary Sewer	Water	Total
<b>Operating revenues</b>			
Charges for services	\$214,389	\$ 287,745	\$ 502,134
<b>Operating expenses</b>			
Salaries	21,935	61,068	83,003
Employee benefits	4,946	14,410	19,356
Supplies	1,108	66,743	67,851
Contracted services	295		295
Legal and accounting	2,680	25,500	28,180
Engineering services	2,618	1,327	3,945
Communications alarms	2,829		2,829
Meetings and conventions		1,974	1,974
Transportation	661	1,720	2,381
Insurance	1,360	4,580	5,940
Pagers/telephones		1,817	1,817
Public utilities	9,834	293	10,127
Water purchases and sewer treatment charges	108,465	261,677	370,142
Repairs and maintenance	46,455	45,610	92,065
Hookup costs	480	19,783	20,263
Depreciation	88,406	85,564	173,970
Miscellaneous	438	2,006	2,444
Total operating expenses	292,510	594,072	886,582
Operating loss	(78,121)	(306,327)	(384,448)
<b>Nonoperating revenues (expenses)</b>			
Interest income	40,123	70,395	110,518
Interest and fiscal charges	(20,584)		(20,584)
Total nonoperating revenues	19,539	70,395	89,934
Income before capital contributions	(58,582)	(235,932)	(294,514)
Capital contributions	315,612	495,125	810,737
Increase in retained earnings	257,030	259,193	516,223
Retained earnings at beginning of year	484,158	2,183,803	2,667,961
Retained earnings at end of year	\$741,188	\$2,442,996	\$3,184,184

Township of Kochville  
Saginaw County, Michigan  
Enterprise Funds  
Combining Statement of Cash Flows  
Year ended March 31, 2003

	Sanitary Sewer	Water	Total
<b>Cash flows from operating activities</b>			
Operating loss	\$ (78,121)	\$ (306,327)	\$ (384,448)
Noncash items included in operating income:			
Depreciation	88,406	85,564	173,970
Decrease (increase) in:			
Accounts receivable	(6,139)	3,978	(2,161)
Inventory		(65,365)	(65,365)
Advance	32,783		32,783
Increase (decrease) in:			
Accounts payable	57,198	205,206	262,404
Accrued salaries	247	741	988
Accrued interest payable	(757)		(757)
Accrued payroll taxes	(354)	(1,575)	(1,929)
Net cash provided by (used in) operating activities	93,263	(77,778)	15,485
<b>Cash flows from capital and related financing activities</b>			
Principal payments on long-term debt	(34,591)		(34,591)
Collections on special assessments	46,530	154,024	200,554
Interest and finance charges	(20,584)		(20,584)
Contributed capital	315,612	495,125	810,737
Capital expenditures	(158,758)	(472,979)	(631,737)
Net cash provided by capital and related financing activities	148,209	176,170	324,379
<b>Cash flows from noncapital and related financing activities</b>			
Advance to other funds		(304,690)	(304,690)
Net cash used in noncapital and related financing activities		(304,690)	(304,690)
<b>Cash flows from investing activities</b>			
Maturities and reinvestment		800,000	800,000
Interest income	40,123	70,395	110,518
Net cash provided by investing activities	40,123	870,395	910,518
Net increase in cash and cash equivalents	281,595	664,097	945,692
Cash and cash equivalents at beginning of year	488,575	476,364	964,939
Cash and cash equivalents at end of year	\$770,170	\$1,140,461	\$1,910,631

Township of Kochville  
Saginaw County, Michigan

Trust and Agency Funds  
Combining Balance Sheet

March 31, 2003

	<u>Trust Fund</u>	<u>Agency Fund</u>	
	<u>Pension Trust</u>	<u>Current Tax Collection</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents		\$5,751	\$ 5,751
Investments	\$72,499		72,499
Total assets	<u>\$72,499</u>	<u>\$5,751</u>	<u>\$78,250</u>
 Liabilities and fund balance			
Liabilities:			
Due to other funds		\$5,751	\$ 5,751
 Fund balance:			
Reserved for employees retirement system	<u>\$72,499</u>		<u>72,499</u>
Total liabilities and fund balance	<u>\$72,499</u>	<u>\$5,751</u>	<u>\$78,250</u>

Township of Kochville  
Saginaw County, Michigan

Statement of Changes in Assets and Liabilities - Current Tax Collection Fund

Year ended March 31, 2003

	Balance April 1, 2002	Additions	Deductions	Balance March 31, 2003
<b>Current Tax Collection</b>				
Assets:				
Cash and cash equivalents	\$10,207		\$4,456	\$5,751
Total assets	<u>\$10,207</u>		<u>\$4,456</u>	<u>\$5,751</u>
Liabilities:				
Due to other funds	\$10,207		\$4,456	\$5,751
Total liabilities	<u>\$10,207</u>		<u>\$4,456</u>	<u>\$5,751</u>



Township of Kochville  
Saginaw County, Michigan

Component Unit - Downtown Development Authority  
Balance Sheet

March 31, 2003

**Assets**

Cash and cash equivalents	\$ 84,627
Investments	<u>754,040</u>
Total assets	<u><u>\$838,667</u></u>

**Liabilities and fund balance**

Liabilities

Accounts payable	\$ 12,080
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Fund balance - unreserved and undesignated	<u>826,587</u>
Total liabilities and fund balance	<u><u>\$838,667</u></u>

Township of Kochville  
Saginaw County, Michigan

Component Unit - Downtown Development Authority  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual

Year ended March 31, 2003

	Budget	Actual	Over (Under) Budget
<b>Revenues</b>			
Interest and investment income	\$ 14,000	\$ 24,388	\$10,388
Unrealized appreciation on investments		39,604	39,604
Total revenues	<u>14,000</u>	<u>63,992</u>	<u>49,992</u>
<b>Expenditures</b>			
Current:			
Administrative		1,222	1,222
Insurance	3,500	3,500	
Accounting software	2,700	275	(2,425)
Printing and publications	3,000	372	(2,628)
Professional fees	7,500	270	(7,230)
Legal fees	7,500	2,419	(5,081)
Membership fees	800	800	
Miscellaneous		1,233	1,233
Capital outlay	80,000	149,885	69,885
Total expenditures	<u>105,000</u>	<u>159,976</u>	<u>54,976</u>
Excess of revenues under expenditures	(91,000)	(95,984)	(4,984)
Fund balance at beginning of year	<u>922,571</u>	<u>922,571</u>	
Fund balance at end of year	<u><u>\$831,571</u></u>	<u><u>\$826,587</u></u>	<u><u>\$(4,984)</u></u>

Township of Kochville  
Saginaw County, Michigan

Schedule of Indebtedness

March 31, 2003

	<u>Date of Issuance of Loan</u>	<u>Amount of Issue of Loan</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>
Contract payable -					
Northwest Utilities Authority	12/30/1997	\$420,291	5.50%	5/1/2003	\$ 23,826
	8/1/1990	45,560	5.50%	5/1/2004	24,453
			5.50%	5/1/2005	25,707
			5.50%	5/1/2006	26,334
			4.60%	5/1/2007	27,588
			4.50%	5/1/2008	28,215
			4.50%	5/1/2009	29,469
			4.50%	5/1/2010	30,096
			4.50%	5/1/2011	31,350
			4.50%	5/1/2012	32,604
			4.50%	5/1/2013	33,858
			4.50%	5/1/2014	35,112
			4.50%	5/1/2015	35,739
			4.50%	5/1/2016	36,366
					<u>\$420,717</u>

11.

# Township Board Meeting

Kochville Township

*October 21, 2003*

Kochville Township  
Report to the Township Board

◆ Introduction

- Andrews Hooper & Pavlik P.L.C. Representative

*Duane Reyhl*

◆ Township Board Letter

- Services Provided
- Results of the 2003 Audit
- Significant Accounting and Auditing Matters
- Matters Requiring Communication
- Letter of Recommendations



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

October 21, 2003

Members of the Township Board  
Kochville Township  
Saginaw, Michigan

We are pleased to submit this report which summarizes the results of our audit of the general purpose financial statements of Kochville Township for the year ended March 31, 2003, a summary of communications to you required under professional auditing literature, and other matters, which we believe would be of interest to you.

### Services Provided

Our primary services to the Township for the year ended March 31, 2003 are summarized below:

- Accounting assistance and research on various matters, related primarily to accounting for and recording of transactions associated with the acquisition of the Township's fire truck and related debt.
- Assistance with the preparation of the Township's financial statements.
- Performed an audit of the financial statements of the Township of Kochville, Michigan for the year ended March 31, 2003. Our audit included all procedures considered necessary by us to perform the audit in accordance with auditing standards generally accepted in the United States of America and to issue our opinion thereon.
- Expanded audit procedures related to testing cash disbursements for April 2003.
- Preparation of the Township's State of Michigan Form F-65.

### Results of the 2003 Audit

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the general purpose financial statements.

The scope of our 2003 audit did not vary significantly from our planned scope. Our scope for the 2003 audit was based on our overall risk evaluation of the Township's operations and controls, discussions with management, and other matters, which came to our attention. Our assessment or "risk analysis" directed proportionally more audit effort to those areas where the risk of material misstatement was believed to be higher.

The information in this report includes a discussion:

- Significant Accounting and Auditing Matters
- Matters Requiring Communication
- Letter of Recommendations

## Significant Accounting and Auditing Matters

The following areas were considered significant to the 2003 financial statements based on the significance of the dollar balance of the account(s) and the judgmental nature of the areas.

### New Accounting Pronouncements

The following discussion highlights significant new accounting standards that either became effective since the Township's previous audit or will become for the Township's audit for the year ending March 31, 2005.

Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33).

Under this accounting standard, which became effective for the Township after its fiscal year ended March 31, 2001, capital contributions are no longer reported as additions to contributed capital, but are reported as nonoperating revenue in the statement of revenues, expenses, and changes in retained earnings. For the Township, this change affects the recording of capital contributions for the Sewer Fund and the Water Fund.

GASB No. 33 does not allow for the restating of contributed capital arising from capital grant contributions recognized prior to 2001. The contributed capital will be restated as part of the implementation of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State of Local Governments*, which is planned for implementation for the year ending March 31, 2005.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement—and Management's Discussion and Analysis—for State and Local Governments* (GASB No. 34).

All financial statements prepared by governmental units, including townships, will be subject to this pronouncement, although the State of Michigan could limit applicability to townships. This complex pronouncement would require entities to dramatically change the way they gather and report financial information.

The Township would not be required to adopt this standard until the fiscal year beginning after June 15, 2003. For the Township, this would be the fiscal year beginning April 1, 2004 and ending March 31, 2005. Early application is permitted, but not anticipated. While this standard does not change the scope of our engagement for the current year, it will affect the subsequent audit for the year ended March 31, 2005, and we are available to assist you in preparing for the change should it become necessary.

The Township should expect implementation of the standard to be complex and the identification of information required for financial reporting along with changes to the format of the financial statements to be time-consuming.

### New Auditing Standards

#### Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*

This standard was issued in October 2002 and will be applicable to the audit of the Township for its next fiscal year. While the issuance of this new SAS does not change our responsibility related to planning and performing our audit to obtain reasonable, (not absolute) assurance that the financial statements are free of material misstatement, including material misstatements caused by fraud, it does significantly expand the procedures we are to perform and how we are to document these procedures and the results obtained.

There are two types of fraud, misappropriation of assets and fraudulent financial reporting. It is the responsibility of management along with those who have responsibility for oversight of the financial reporting process, to set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter and detect fraud.

In summary, all auditors will now be required to document and perform the following (this list is not all-inclusive):

- Set the tone at the top and emphasize to audit staff to maintain a questioning mind throughout the audit (AHP has always emphasized this).
- Conduct a brainstorming session with audit team members regarding fraud risk factors related to the susceptibility of the Township's financial statements to material misstatement due to fraud.
- Expand the sources used to gather information about the identification of risks of material misstatement due to fraud.
- Expand the use of inquiries of management and others within the Township, including at least the chair of the finance committee, or its equivalent.
- Evaluate the Township's programs and controls that address fraud risks.
- Perform procedures to address management override of controls.



- Presume that revenue recognition is a fraud risk.

These procedures will result in additional time spent by management and all auditors.

## Matters Requiring Communication

This section discusses our responsibilities under Statements on Auditing Standards (SAS) No. 61, *Communication with Audit Committees*. The following excerpts from SAS No. 61 describe the specific matters required to be communicated to the audit committee or their equivalent (e.g., the Township Board) and our responses thereto:

- The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America--This responsibility is summarized in our audit opinion. An audit provides reasonable, rather than absolute, assurance about the Township's financial statements.
- Significant Accounting Policies--SAS No. 61 requires that we discuss with you the initial selection of and changes in significant accounting policies or their application, methods used to account for significant unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant new accounting policies that affected the Township for 2003.
- Management Judgments and Accounting Estimates--The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive because of their significance to the financial statements and the possibility that actual future events affecting them may differ significantly from management's current expectations.
- During our 2003 audit we reviewed the reasonableness of judgments and accounting estimates made by management which could have a material impact on the financial statements, including those related to the valuation of investments, useful lives of property and equipment, and the allowance for doubtful accounts. Based on our review, we concluded that management's judgments and estimates were reasonable.
- Significant Audit Adjustments--For purposes of SAS No. 61, an audit adjustment, whether or not recorded by the Township, is a proposed correction of the financial statements that, in our judgment, may not have been detected except through the auditing procedures performed. During our procedures, we proposed three audit adjustments, which were discussed with and recorded by the Township. These adjustments were generally of a routine nature and similar to adjustments proposed in prior years.

- Uncorrected Misstatements--As defined under professional standards, uncorrected misstatements are those potential adjustments aggregated by the auditor during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We aggregated one minor uncorrected misstatement, related to the recording of the estimate for the allowance for uncollectible taxes, during the current engagement which we judged to be immaterial to the general-purpose financial statements overall. We understand that the Township has planned to record this allowance in the subsequent period.
- Other Information in Documents Containing Audited Financial Statement--The auditor's responsibility with respect to other information contained in documents containing audited financial statements is to read the other information for material misstatements and inconsistencies with the financial statements. We are aware of no documents of this nature.
- Disagreements with Management--We have had no disagreements with management about accounting or auditing matters that individually or in the aggregate could be significant to the financial statements or audit report.
- Consultation with Other Accountants--We are not aware of any consultation about significant matters by the Township with other independent accountants.
- Major Issues Discussed with Management Prior to Retention--There were no major issues, including the application of accounting principles and auditing standards, that were discussed with management in connection with our retention as the Township auditors.
- Difficulties Encountered in Dealing with Management Related to the Performance of the Audit--We encountered no significant difficulties in the performance of the audit, other than with resolving audit issues related to the subsequent event as described in Footnote 14 of the audited financial statements. In addition, we encountered a delay in completing the audit due to reassignment of responsibilities for preparing the financial statements.
- Communication of Non-Audit Services--For the fiscal year ended March 31, 2003, we did not perform any nonaudit accounting services that we assessed would impair our independence. The non-audit services performed included assistance with the preparation of the financial statements for the year ended March 31, 2003, additional procedures related to testing cash disbursements for the April 2003, preparation of State of Michigan Form F-65, assistance with matters related to an invoice received from the Saginaw County Road Commission, and consultation and research related to the recording of transactions related to the acquisition of the Township's fire truck.

- Auditor's Responsibilities in a Financial Statement Audit--SAS No. 78 requires that we obtain a sufficient understanding of each of the following five internal control components during the planning stages of our audit: the control environment, risk assessment, control activities, information and communication, and monitoring. SAS No. 78 further requires that the above understanding is documented, and that our basis for our conclusions about the assessed level of control risk based on our understanding is also documented.

### Letter of Recommendations

We considered the Township's internal control during the course of the audit, and we remained alert for areas where procedures and controls could be improved. We noted several matters involving internal control and its operation that we considered to be opportunities for operational improvement. These comments are included in a separate letter.

\* \* \* \*

This report is intended solely for the information and use of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to respond to any comments or questions you may have concerning this letter, our management comments, or any other aspects of our services to Kochville Township.

It is a pleasure serving the Township. We especially appreciate the cooperation and courtesy extended to us by the Township staff and officials and look forward to continuing our association in the future.

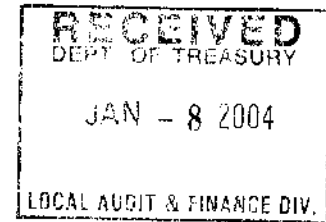
Sincerely,

*Andrew Hopper & Pavlik P.L.C.*



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

To the Township Board  
Township of Kochville  
Saginaw, Michigan



In planning and performing our audit of the general purpose financial statements of the Township of Kochville, Saginaw County, Michigan, as of and for the year ended March 31, 2003, we considered the Township's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal controls. Our consideration of internal controls would not necessarily disclose all matters in the internal control process that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that misstatements caused by errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The attached suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the information and use of the Township Board and management of the Township of Kochville, Saginaw County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the following matters or to respond to any questions, at your convenience.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
May 29, 2003

## Internal Controls and Separation of Duties

One of the key features of a strong internal control structure is adequate separation of duties as they relate to functions that are generally considered incompatible. The basic premise is that no one employee should have access to both the physical assets and the relating accounting records or to all phases of the transaction. However, we recognize that the limited number of staff in smaller municipalities often prohibits an optimum, cost-effective separation of duties. Although the size of the Township's staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties.

- Financial Oversight

The general limitations on separation of duties in any smaller municipalities like the Township of Kochville (the Township) requires that the Township Board continue to remain involved in the financial affairs of the Township through oversight of operations, development of the Township budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on our inquiries, the Township Board performs these duties and our comment here is intended to emphasize the importance of the Township Board's financial oversight role.

- Cash Receipts

One critical area with limited separation of critical functions is cash, where we noted that employees with access to cash receipts also receive incoming cash and checks, prepare the deposit slip, post receipts to the general ledger, and prepare the monthly bank reconciliation. This results in an increased risk that errors could occur and not be detected on a timely basis in the course of employees performing their normal duties. We recommend expanding the roles of available employees in the office to further segregate the responsibilities in the cash receipts process to the extent considered practical and cost-effective. For example, one employee could open the mail and prepare a receipt (in duplicate) for each payment collected and immediately stamp any checks received *for deposit only* using the Township's stamp. The cash receipts could then be given to another employee to prepare the deposit slip and record the transaction in the general ledger. After the deposit slip is prepared, a third person should match the deposit total of the duplicate cash receipts. We also recommend that the Township deposit funds on a daily basis. These steps would not require additional employees and could strengthen the system of control over cash receipts.

## Mandatory Vacations

During the course of the audit we noticed that mandatory vacations were not required for all employees. However, through inquiry and observation, we noticed that employees do take vacations. We recommend that the Township consider adopting a policy that requires all employees to take vacations. This would allow other employees to perform the functions normally done by that employee.

## Antifraud Programs and Controls as Highlighted in Statement of Auditing Standards No. 99, *Consideration of Fraud in a Financial Statements Audit*

The Township has a system of internal controls in place that addresses the prevention of material misstatements, whether caused by error or fraud. Separate controls related specifically to fraud have not been formally implemented. This condition was noted as part of our overall review of the Township's internal controls. Although these separate controls are not yet formally required by U.S. standards, U.S. Statement of Auditing Standards No. 99, *Consideration of Fraud in a Financial Statements Audit*, will become effective for audits of your financial statements after the year ended March 31, 2003 and will require auditors to perform specific additional procedures with respect to the detection of material misstatements caused by fraud. Included in this standard is a document commissioned by the Fraud Task Force of the AICPA's Auditing Standards Board titled, "Management Antifraud Programs and Controls," which outlines a framework for an entity's management to implement measures to reduce the incidence of fraud.

While the Township's current system of internal controls already includes policies and procedures that are designed to reduce the risk of incidences of fraud, we recommend that the Township adopt a formal fraud risk assessment procedure. This risk assessment process starts with consideration of the culture of honesty and high ethics within the Township. Cultures of honesty and high ethics clearly communicate acceptable behavior and expectations of each employee. Such a culture is rooted in a strong set of core values that provide the foundation for employees as to how the organization conducts its business. It also allows an entity to develop an ethical framework that covers (1) fraudulent financial reporting, (2) misappropriation of assets, and (3) corruption as well as other issues. Maintaining this culture requires that the Township monitor the following segments of its internal controls:

1. Tone at the top
2. Maintenance of a positive workplace environment
3. Hiring and promoting appropriate employees
4. Training about the Township's values and its code of conduct
5. Confirmation that all employees will be held accountable to act within the Township's code of conduct
6. Discipline system as to the way the Township communicates the way it reacts to incidents of alleged or suspected fraud, including expectations about the consequences of committing fraud

Neither fraudulent financial reporting nor misappropriation of assets can occur without a perceived opportunity to commit and conceal the act. Townships can proactively reduce the risk of fraud opportunities by:

1. Identifying and measuring fraud risks
2. Taking steps to mitigate identified risks
3. Implementing and monitoring appropriate preventive and detective internal controls and other deterrent measures

As mentioned above, while many of the Township's existing internal controls contribute to the antifraud objectives discussed in our recommendation, establishing an ongoing, formal antifraud program could further strengthen the Township's existing internal controls for preventing and detecting material misstatements on a timely basis.

## GASB Statement No. 34 and Related Pronouncements

In June of 1999, the Governmental Accounting Standards Board issued a new pronouncement titled *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This standard will significantly change the future financial statement format for the Township and will be effective for the year ended March 31, 2005. Along with this new standard, the Township will be required to adopt GASB Statement No. 38

We recommend that the Township personnel become familiar with these new pronouncements and develop a plan for implementing the new standard. Listed below are some of the requirements of the new statements as they apply to the Township:

- Preparation of government-wide financial statements, including required supplemental information such as new presentation of budget to actual expenditures, and a reconciliation statement between the government-wide financial statements and the fund financial statements.
- New presentation of the current fund financial statements.
- Restructuring of the current notes to financial statements and the addition of certain new required note disclosures.
- Preparation of Management's Discussion and Analysis (MD&A).
- Establishing a capitalization threshold and then recording, tracking and maintaining records of fixed assets, accumulated depreciation, and depreciation expense. The Township will be required to obtain historical cost information on all fixed assets currently held that are greater than the capitalization threshold. Accumulated depreciation as of April 1, 2004 will need to be calculated, as will depreciation expense for the year ended March 31, 2005.

## E-mail and Electronic Recording

It is essential that government agencies appropriately manage their electronic records, including e-mail. Like all other government records, electronic records and e-mail is subject to Freedom of Information Act (FOIA) requests and litigation. Agencies can be held liable if they keep their e-mail messages too long, if their e-mail messages are not properly destroyed, or if they are destroyed too soon. The State of Michigan has published two guides, one for electronic records generally; the other for electronic mail. We recommend that the Township review these guides and compare its current policies and procedures with those suggested by the State of Michigan guides in order to evaluate whether any changes in current policies may be required.